

Message Text

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64

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 (ISO) W

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R 231739Z JUN 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 570

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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GUATEMALA ALSO FOR ROCAP

E.O. 11652: NA

TAGS: EFIN ECON CS

SUBJECT: GOVERNMENT WILL TAKE FURTHER BALANCE OF
PAYMENTS MEASURES

SUMMARY: VICE PRESIDENT CASTILLO ANNOUNCED JUNE 19
THAT THE GOVERNMENT WILL TIGHTEN CREDIT CONTROLS AND
IMPOSE SEVERE LIMITS ON GOVERNMENT IMPORTS IN ORDER
TO IMPROVE COSTA RICA'S BALANCE OF PAYMENTS. HE
SAID THAT A DEVALUATION IS NOT IN ANY SENSE
PROPOSED AS A SOLUTION TO COSTA RICA'S BALANCE OF
PAYMENTS PROBLEM. THE NEW RESTRICTIVE MEASURES ARE
EXPECTED TO MEET INTERNATIONAL MONETARY FUND
CONDITIONS FOR A DRAWING FROM THE OIL FUND. END SUMMARY.

1. VICE PRESIDENT CARLOS MANUEL CASTILLO, FOLLOWING
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A MEETING JUNE 19 WITH REPRESENTATIVES OF CHAMBERS

OF COMMERCE AND INDUSTRY, PRESENTED A REPORT TO THE PRESS THAT SPOKE FRANKLY ABOUT COSTA RICA'S SERIOUS BALANCE OF PAYMENTS PROBLEMS AND REPORTED SIGNIFICANT NEW MEASURES THAT THE GOVERNMENT WILL PUT INTO EFFECT TO DEAL WITH THE PROBLEM.

2. CASTILLO SAID, "THE PROBLEMS WE FACE ARE SERIOUS AND IN SOME CASES ASSUME A GRAVE CHARACTER THAT REQUIRES A VERY INTENSE, VERY PERSISTENT, AND VERY CONTINUOUS EFFORT BY BOTH THE GOVERNMENT AND THE PRIVATE SECTOR TO RESOLVE THEM." CASTILLO SAID HE DID NOT WANT TO CREATE AN EXAGGERATED IMPRESSION OF PESSIMISM OR PANIC BECAUSE, WITH THE MEASURES THAT HAVE BEEN TAKEN AND WILL BE TAKEN, THE GOVERNMENT CAN OVERCOME THE PROBLEMS. CASTILLO EMPHASIZED THAT THE NUMBER ONE PROBLEM IS THAT OF THE BALANCE OF PAYMENTS, THE TRADE GAP. CASTILLO SAID IT IS INDISPENSABLE TO PREVENT THE TRADE GAP FROM GROWING AND THAT THE GOVERNMENT HOPES TO HOLD IMPORTS THIS YEAR TO THE LEVEL THEY REACHED LAST YEAR OF SOME \$750 MILLION.

3. IN RESPONSE TO A QUESTION ABOUT DEVALUATION, DR. CASTILLO SAID, "THE GOVERNMENT IS FIRMLY COMMITTED, NOT ONLY NOW BUT SINCE THE BEGINNING OF THE ADMINISTRATION, TO MAINTAINING A SINGLE RATE OF EXCHANGE AT THE LEVEL AT WHICH IT NOW IS. THUS, IN NO SENSE HAS DEVALUATION BEEN PROPOSED AS A POSSIBLE SOLUTION TO THE PROBLEM OF THE BALANCE OF PAYMENTS, NOR ANY MODIFICATION IN OUR SYSTEM OF EXCHANGE RATES, AS THE PRESIDENT HAS REITERATED."

4. CASTILLO PROMISED THAT THE GOVERNMENT WOULD CONDUCT ITSELF IN WAYS THAT WOULD NOT CONTRIBUTE TO INCREASING THE TRADE GAP. HE SAID THAT SALARY ADJUSTMENTS WOULD NOT EXCEED THE RATE OF INFLATION AND THAT PUBLIC SPENDING WOULD BE INCREASED ONLY VERY MODERATELY, CERTAINLY LESS THAN THE REAL NEEDS OF THE COUNTRY.

5. REGARDING IMMEDIATE MEASURES TO IMPROVE THE BALANCE OF PAYMENTS, CASTILLO SAID THAT THE GOVERNMENT LIMITED OFFICIAL USE

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WILL MOVE ON TWO FRONTS. IT WILL ENFORCE THE CENTRAL BANK'S CREDIT PROGRAM IN ORDER TO PREVENT CREDIT INSTITUTIONS FROM EXCEEDING THE LIMITS ESTABLISHED BY THAT INSTITUTIONS AND IT WILL CREATE A VERY SEVERE MECHANISM OF CONTROL OF THE IMPORTS OF THE PUBLIC SECTOR. CASTILLO SAID THAT NEITHER THE MINISTRIES NOR AUTONOMOUS INSTITUTIONS WILL BE PERMITTED TO IMPORT GOODS AND SERVICES WITHOUT A PRIOR AUTHORIZATION OF THE GOVERNMENT.

CASTILLO SAID THAT THE GOVERNMENT WOULD ALSO WORK TO INCREASE EXPORTS, ESPECIALLY TO NEW MARKETS.

6. COMMENT: THE NEW MEASURES PROMISED BY CASTILLO WILL CLOSE TWO IMPORTANT GAPS IN THE GOVERNMENT'S CURRENT PROGRAM TO DEAL WITH THE BALANCE OF PAYMENTS SITUATION. CREDIT RESTRICTIONS AND HIGH CONSUMPTION TAXES HAVE DECREASED COMMERCIAL IMPORTS BUT GOVERNMENT MINISTRIES AND AUTONOMOUS INSTITUTIONS OF THE GOVERNMENT WERE NOT AFFECTED. NOW THE MINISTRY OF FINANCE WILL STRICTLY CONTROL GOVERNMENT IMPORTS, WHICH UNPUBLISHED ESTIMATES INDICATE AMOUNTED TO SOME \$130 MILLION LAST YEAR. TIGHT CONTROLS ON OVERALL CREDIT LEVELS FOR EACH BANKING INSTITUTION SHOULD ALSO HELP TO REDUCE IMPORTS, AS EXISTING PUBLIC CREDIT CONTROLS RELATE ONLY TO MONEY BORROWED SPECIFICALLY TO FINANCE PURCHASES OF CONSUMER GOODS. THOSE CONTROLS DID NOT PREVENT AN OVERALL EXPANSION OF CREDIT THROUGH PERSONAL LOANS, BUSINESS LOANS, AND LOANS AT SUBSIDIZED RATES, SUPPOSEDLY TO FINANCE AGRICULTURAL PRODUCTION AND EXPORTS, WHICH COULD EASILY BE DIVERTED TO OTHER PURPOSES. THE GOVERNMENT EXPECTS TO REDUCE THE OVERALL RATE OF CREDIT EXPANSION THROUGH CREDIT LIMITS IMPOSED ON ALL COMMERCIAL BANKS, BUT A SIGNIFICANT LOOPHOLE WILL REMAIN IN THAT FINANCIERAS WILL APPARENTLY NOT BE SUBJECT TO CONTROLS.

7. ANOTHER POSSIBLE MEASURE TO REDUCE IMPORTS THAT HAS BEEN UNDER CONSIDERATION IS IMPOSITION OF PRIOR DEPOSIT REQUIREMENTS THAT MIGHT RANGE UP TO 100 PERCENT ON IMPORTS. CENTRAL BANK PRESIDENT BERNAL JIMENEZ TOLD THE AMBASSADOR RECENTLY THAT SUCH A MEASURE MAY BE IMPOSED. WHETHER THIS IDEA HAS BEEN SUPERSEDED BY THE MEASURES ANNOUNCED BY CASTILLO, OR WHETHER BOTH ACTIONS WILL LIMITED OFFICIAL USE

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BE TAKEN, IS NOT YET CLEAR.

8. THE INTERNATIONAL MONETARY FUND REPRESENTATIVE HERE IS PLEASED THAT COSTA RICA WILL FINALLY TAKE STEPS TO REDUCE THE OVERALL LEVEL OF CREDIT IN THE ECONOMY AND THAT IT WILL RESTRICT GOVERNMENT IMPORTS, OTHER THAN THOSE WHICH RELATE TO PROGRAMS FINANCED FROM OUTSIDE THE COUNTRY SUCH AS THE ARENAL DAM PROJECT. IT WILL NOT BE NECESSARY TO REDUCE THESE IMPORTS THAT BRING THEIR OWN FINANCING. THE IMF REPRESENTATIVE BELIEVES THAT THE MEASURES COSTA RICA WILL TAKE WILL BE SUFFICIENT TO DEMONSTRATE TO THE IMF THAT THE COUNTRY IS EMBARKED ON A SERIOUS PROGRAM TO DEAL WITH ITS BALANCE OF PAYMENTS PROBLEMS. IT SO, COSTA RICA WOULD BE PERMITTED TO DRAW AGAINST THE

IMF'S OIL FACILITY.

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